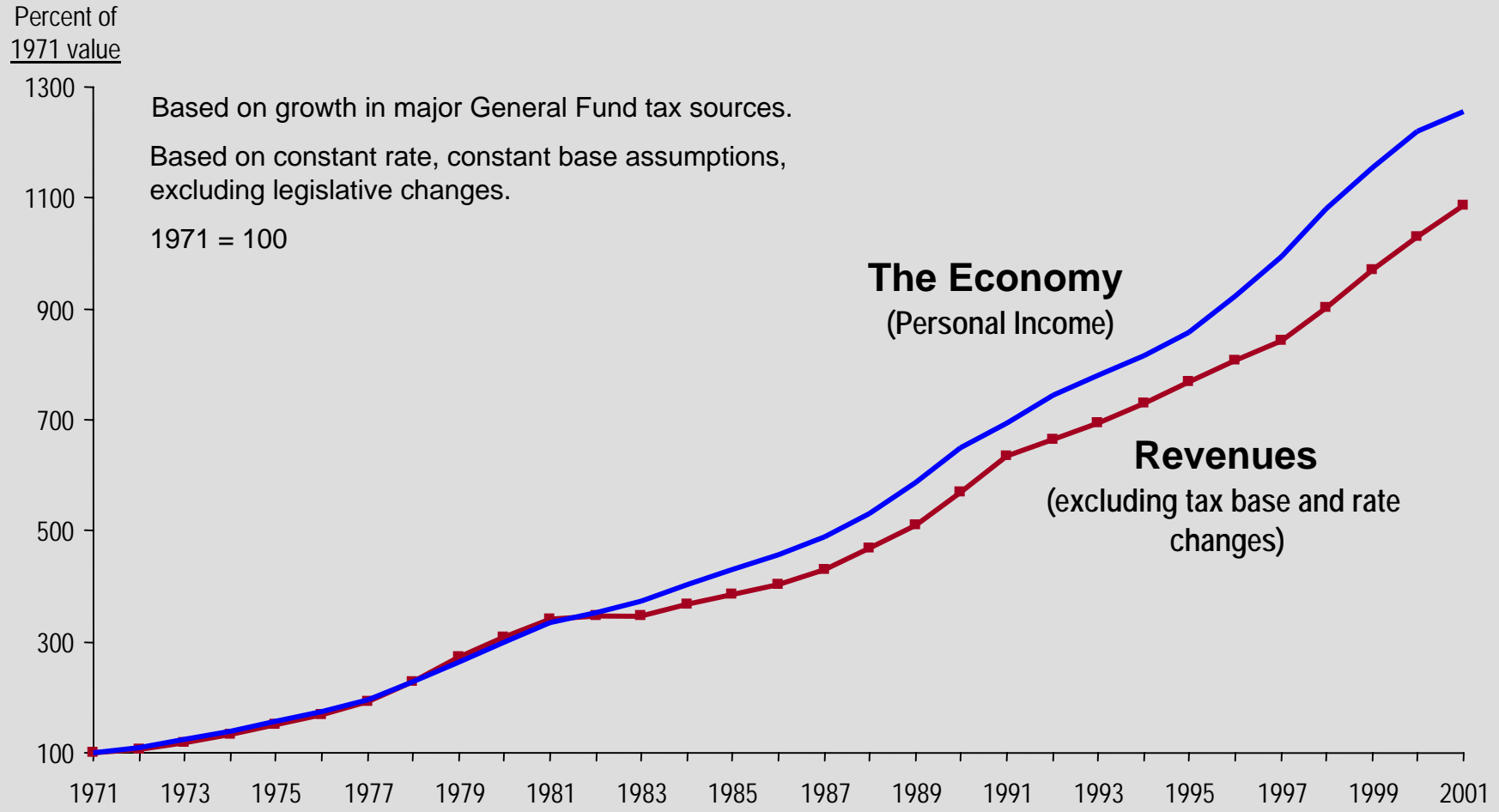


Budget Outlook

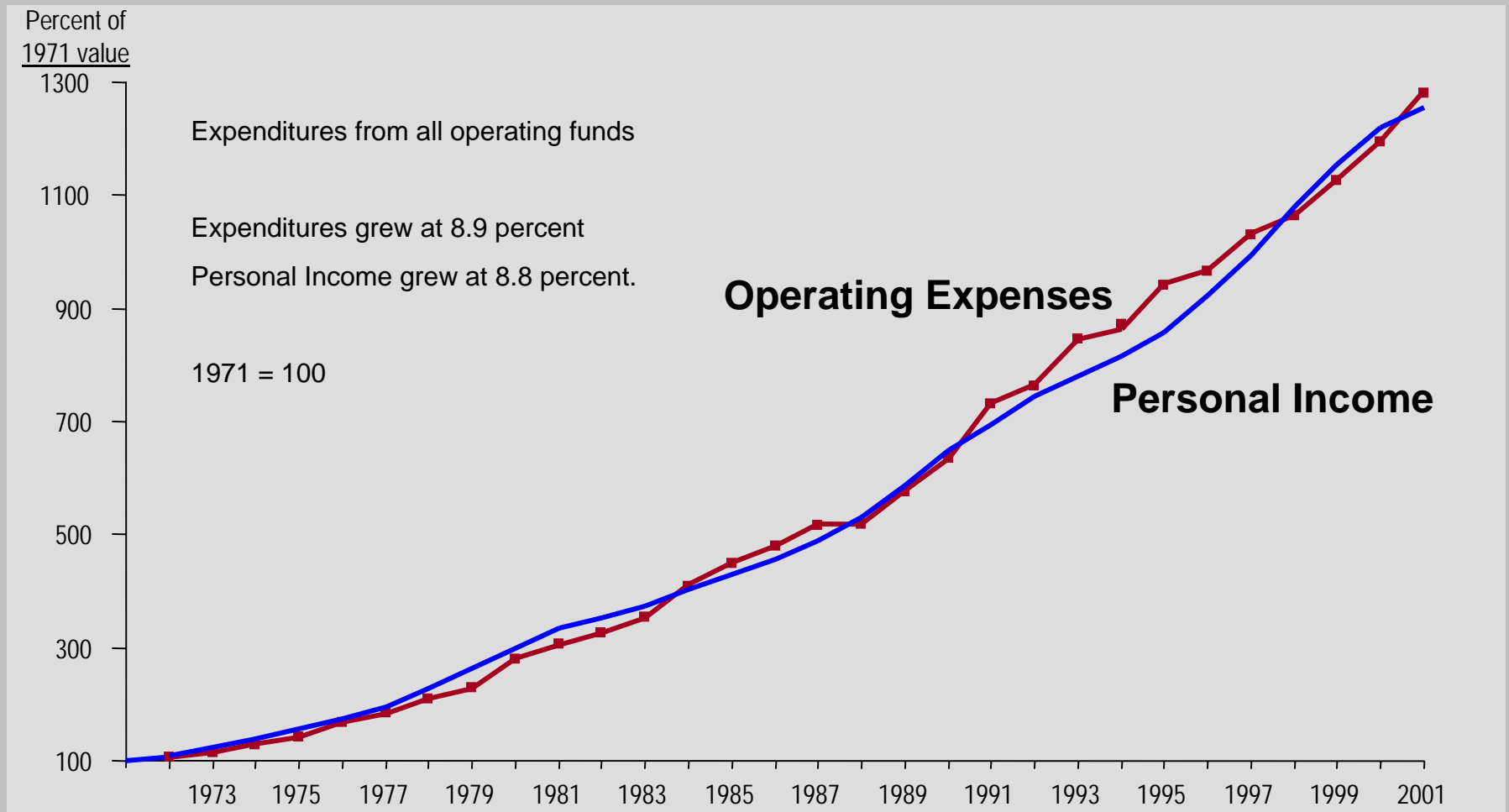
September 17, 2002
Office of Financial Management



Excluding tax base and rate changes, over the past 30 years General Fund revenue has grown more slowly than the economy.



Meanwhile, operating expenses grew at about the same pace as the economy.

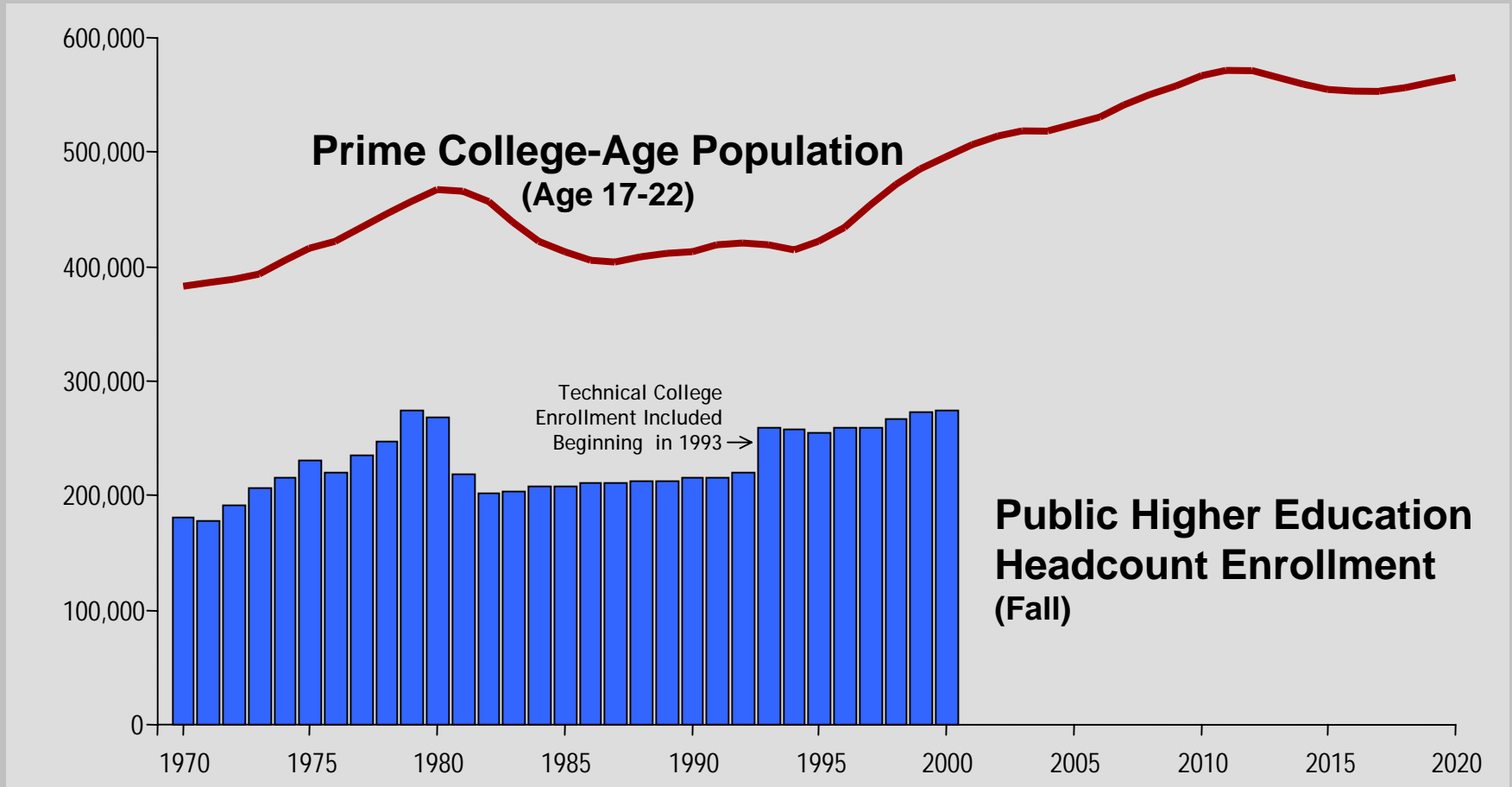


Budget pressures and personal income growth diverge...

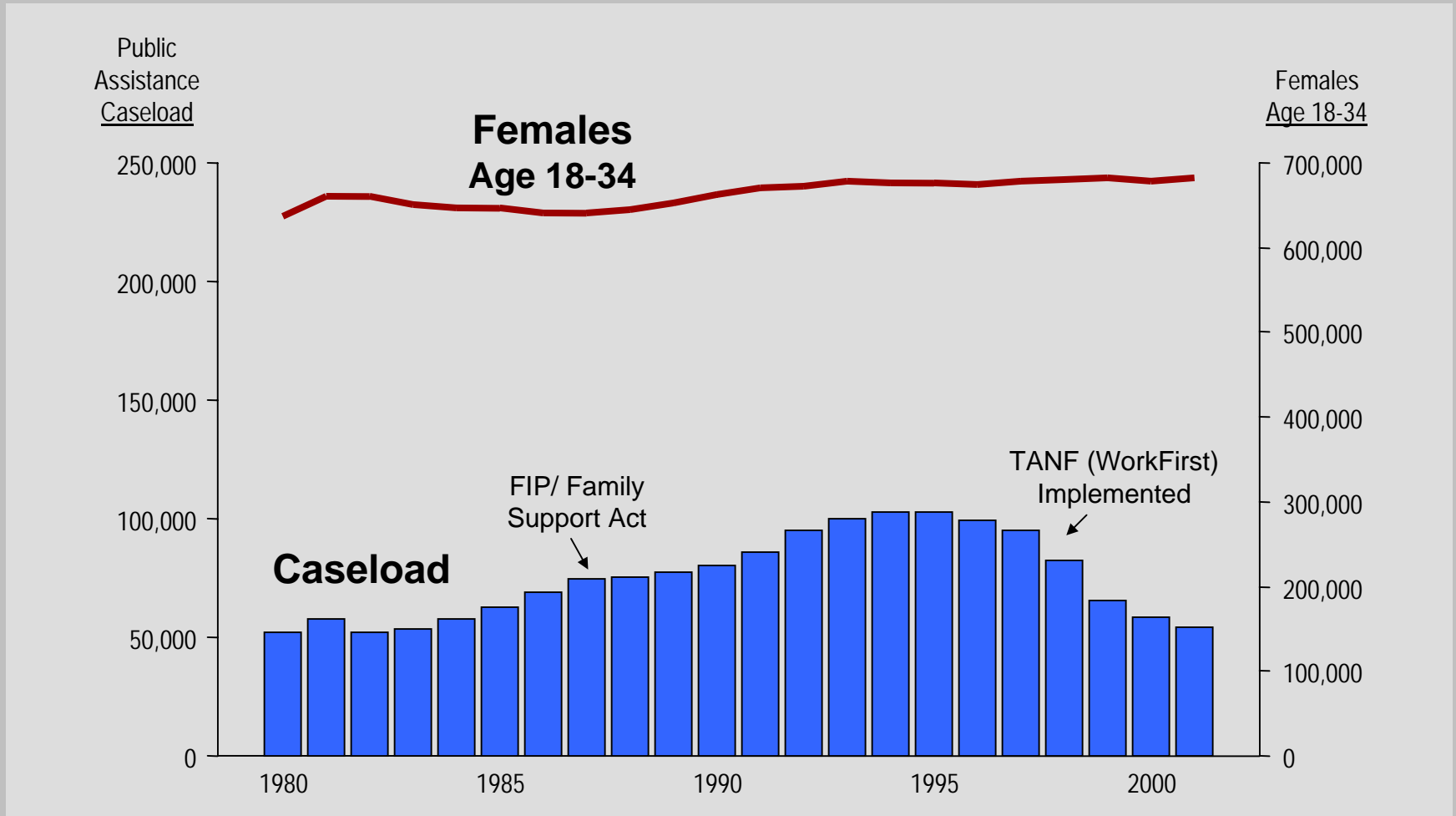
- when **specific population budget drivers**, like the age 5-17 school population, grow much faster or slower than general population growth
- when **specific inflation budget drivers**, like “health care inflation,” grow much faster or slower than general inflation
- when **utilization rates** for government services change – e.g., change in the percent of women in child-bearing years on public assistance rolls
- when **policy changes** increase or reduce government services



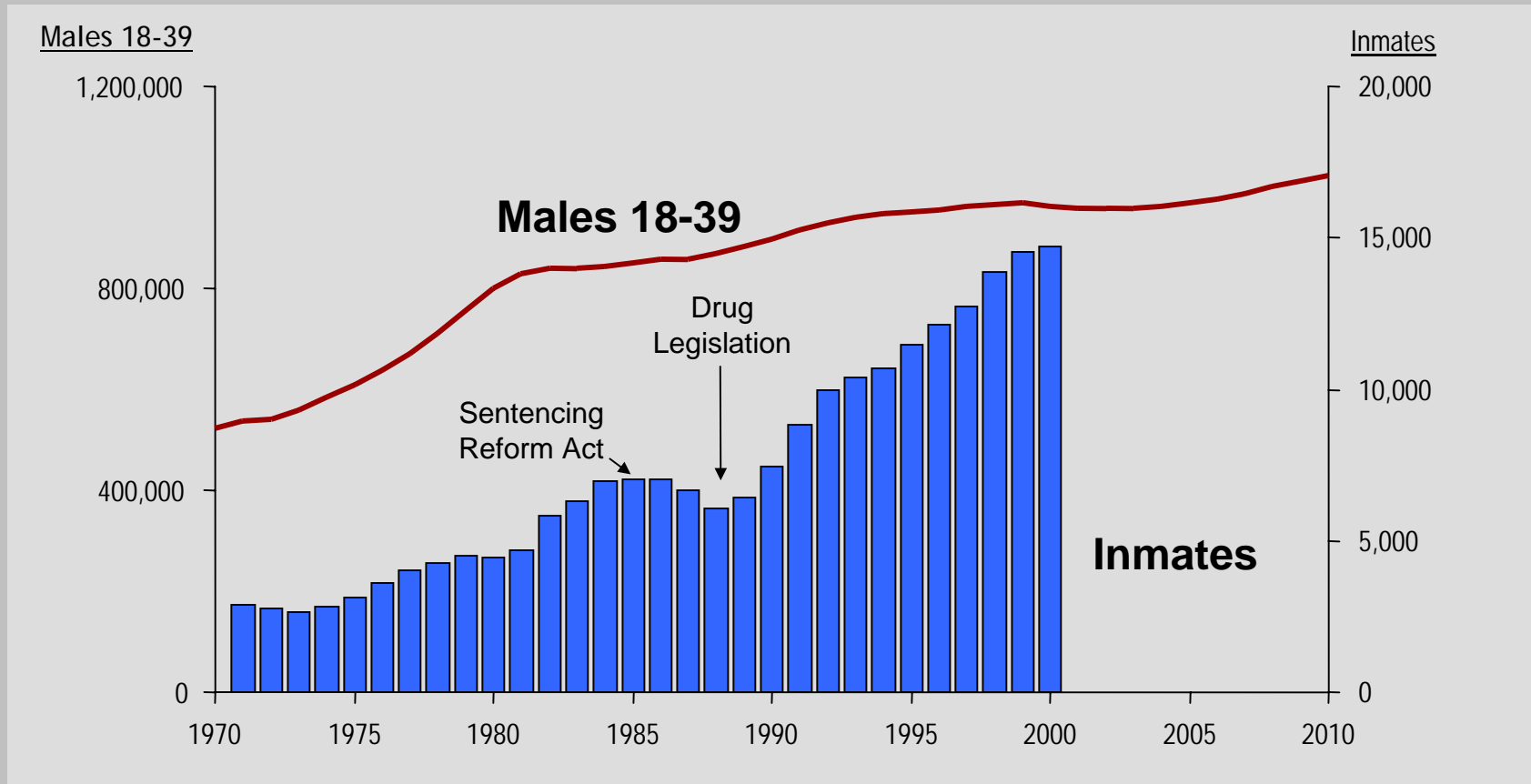
Enrollment in higher education follows demographic change. Demographic pressure in higher education is now strong.



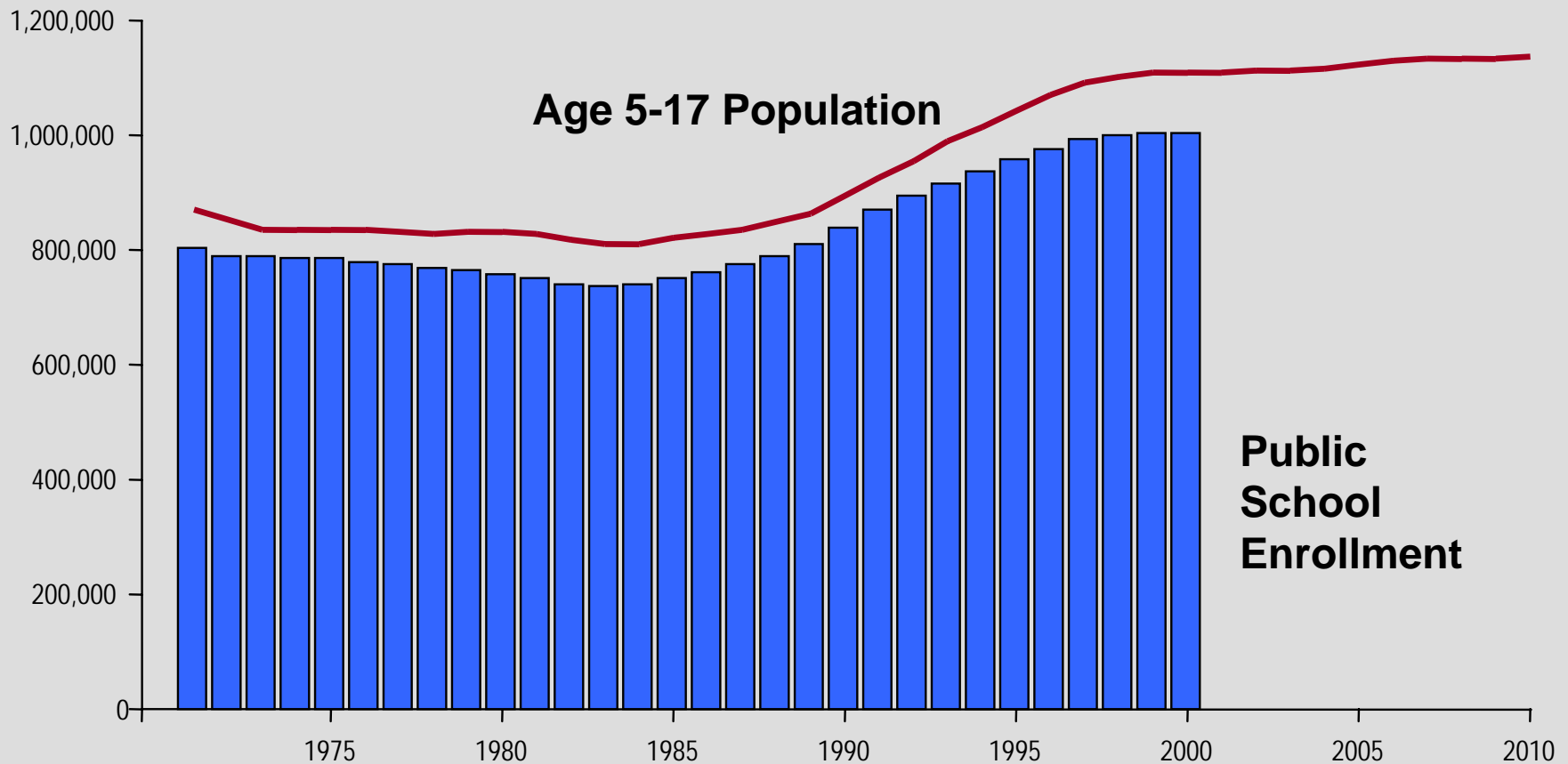
Policy choices can offset demographic pressures.



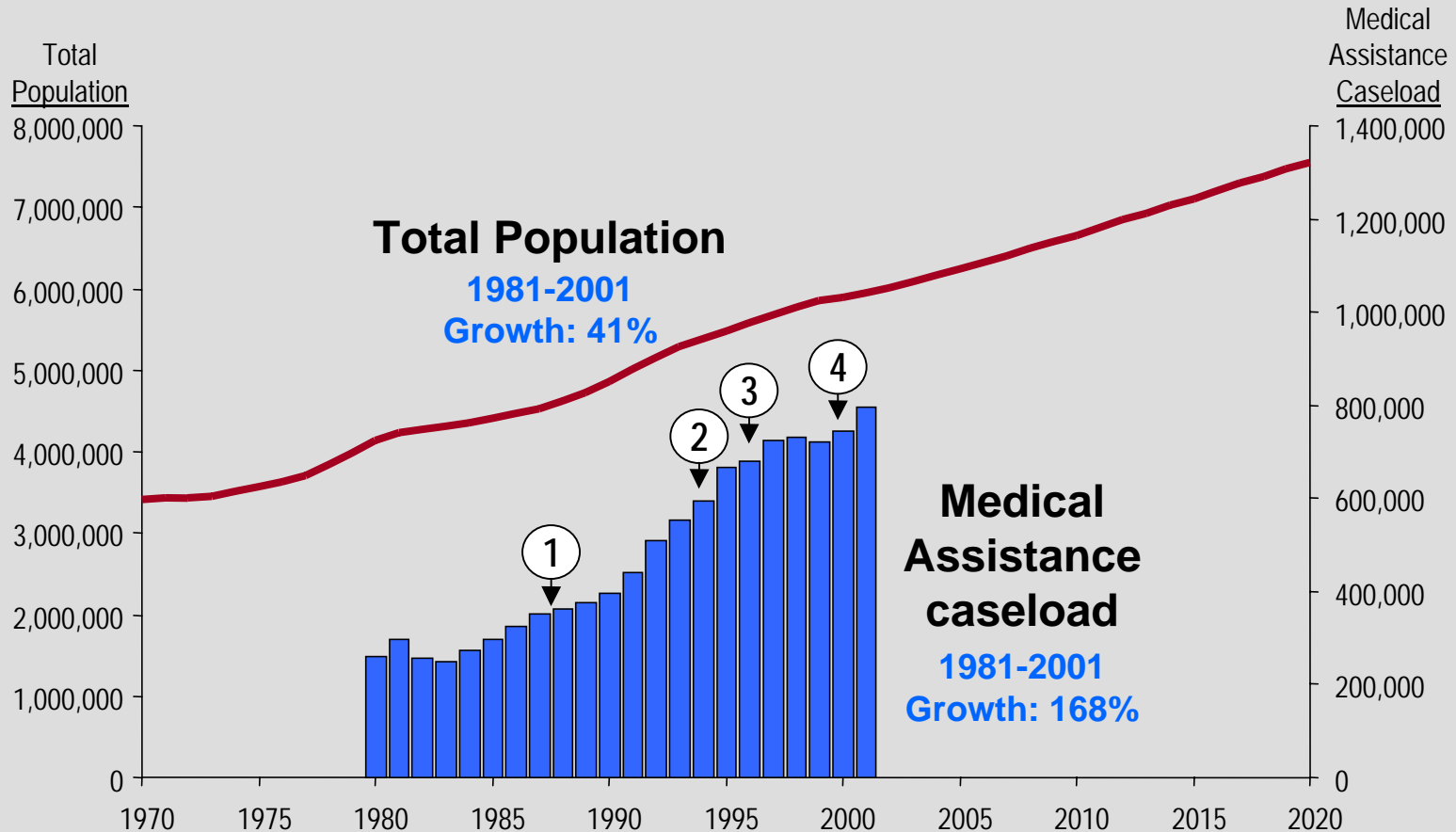
From 1970 through 1988 the prison population tracked the population fairly closely. The Sentencing Reform Act reduced the prison population. Emphasis on drug crimes increased the prison population.



Demography is a major factor in K-12 enrollment. In the medium term demographic pressures in K-12 will be very low.



Policy factors have been a driver of Medical Assistance caseloads.



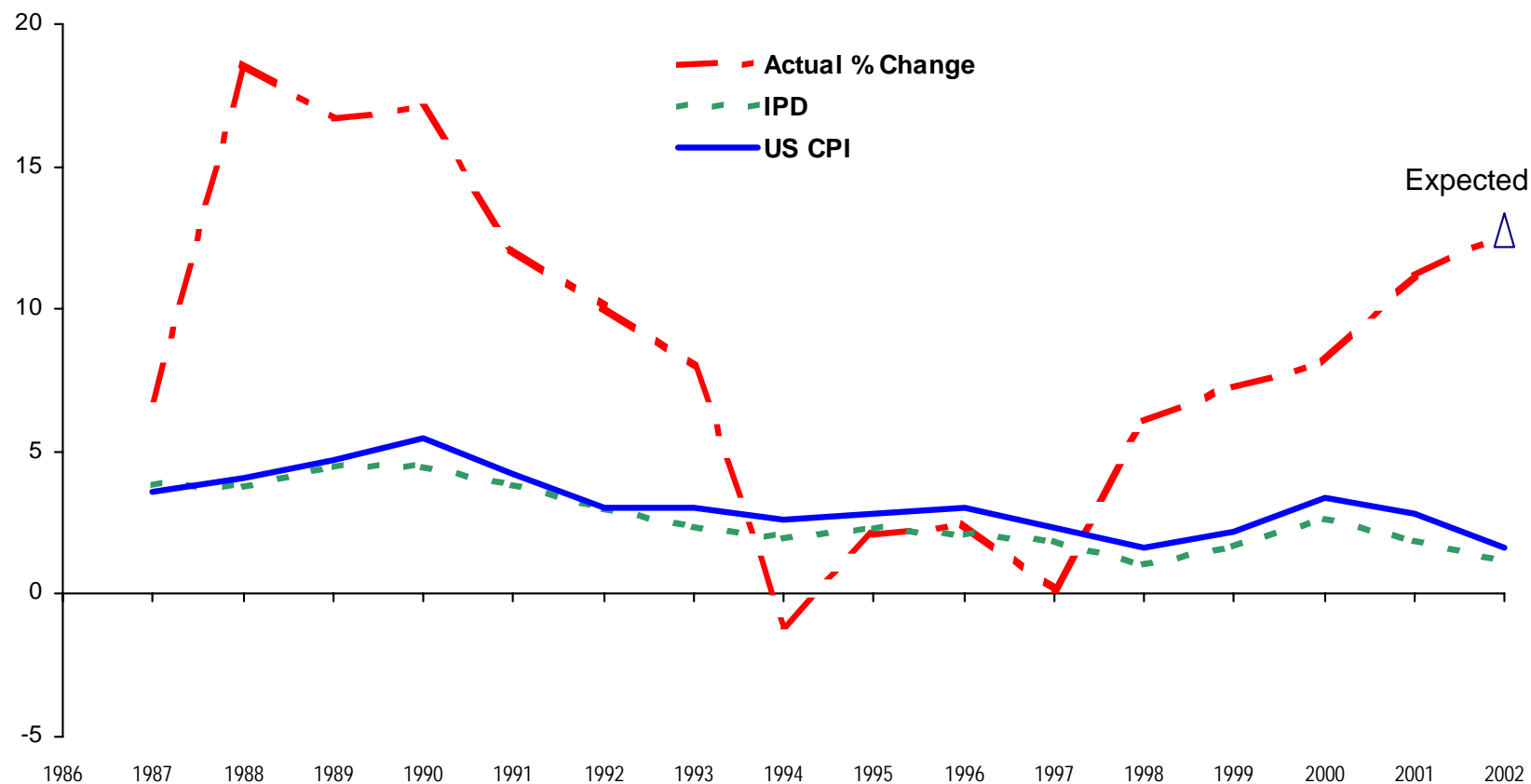
- ① July 1988: First Steps expansion for children and pregnant women.
- ② July 1994: Expansion to 200% federal poverty level (FPL) for children.

- ③ August 1996-August 1997: unintentional drop in AFDC/TANF related component as a result of Welfare Reform.
- ④ August 1999: TANF redetermination and reinstatement.



Percent Change in Medical Costs

Compared with Selected Inflation Indicators



Underlying Pressures Increase Health Care Costs

- Traditional inflation drives prices up to pay for the same levels of service while an aging population adds to demand.
- New procedures, tests, and technology
- New drug costs, new drugs, and new demand for drugs

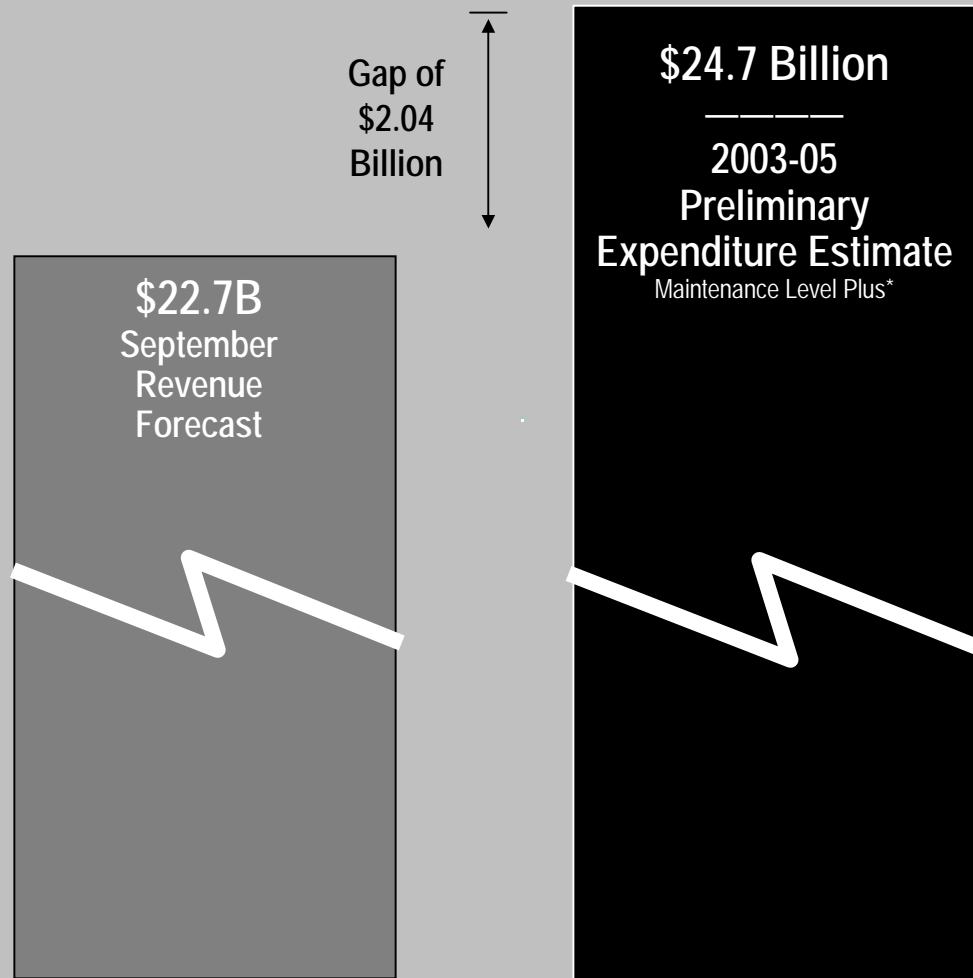


What Does It All Mean for 2003-05 and Beyond?

**Spending, Revenue, and Reserves
Beginning with the 2002 Supplemental
Budget**



Preliminary 2003-05 GFS Budget Outlook



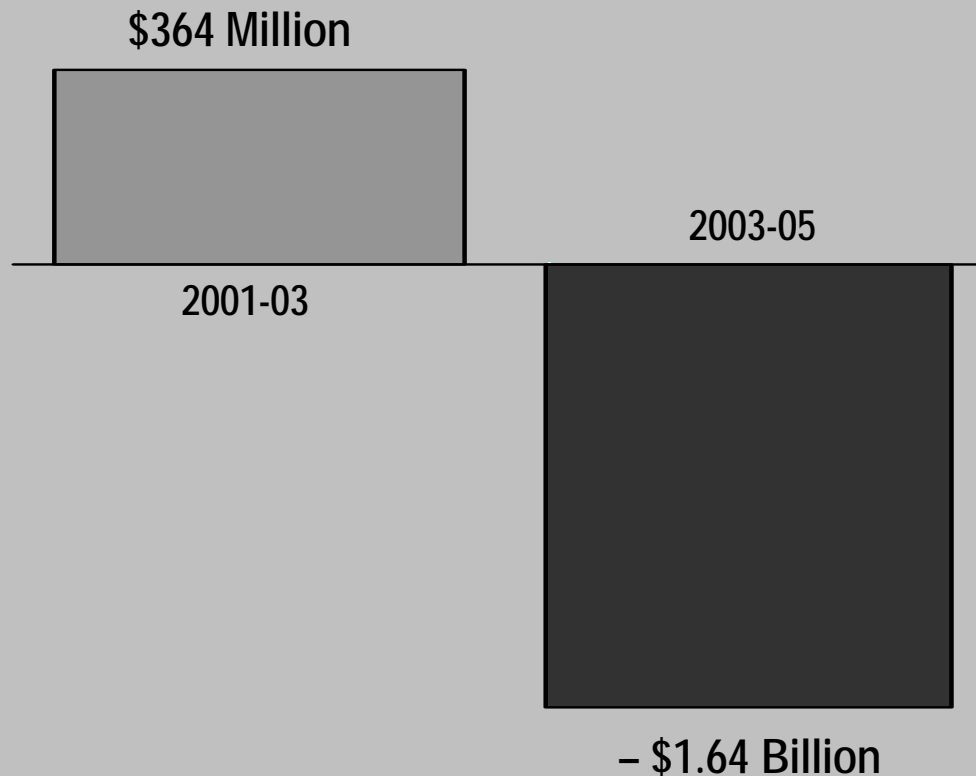
*Maintenance Level plus selected other costs: e.g. higher estimate of health care inflation; salary cost-of-living increase for state employees, health benefits maintained at current level; tort costs.



Preliminary 2003-05 GFS Budget Outlook

Ending Balances

assuming 7/02 expenditure estimate and September revenue forecast
(GFS and Emergency Reserve Fund)



Revenue and Resource Assumptions

FY 2004 – FY 2007

- **Official September 2002 Economic and Revenue Forecast for 2001-03 Biennium and 2003-05 Biennium**
- **5.8% per year personal income growth after 03-05 (slightly less than past decade)**
- **5.0% per year underlying revenue growth after 03-05 (0.5% less than past decade)**
- **Based on 0.85 elasticity, compared with 0.91 over past decade**
- **\$2.3 billion diversion to Student Achievement Fund through 05-07 under Initiative 728**



Health Care Costs Drive Spending Levels

(Builds on 2001-03 Supplemental Budget as passed in March 2002 and Governor's vetoes.)

	Scenario 1	Scenario 2
Employee COLAs: Seattle CPI – 2.3%	X	X
Caseload growth – based on official caseload forecasts where available OR growth in associated population group	X	X
General inflation (goods and services): IPD – 2.2%	X	X
Higher education maintains its 01-03 participation rate.	X	X
No other policy adds are included.	X	X
Annual growth in health care costs	IPD (2.2%)	12%*

*Down from 15% in 01-03



Scenario 1: All programs grow based on caseload/specific population growth and general inflation. Revenue grows at 85% of personal income growth.

	<i>In Millions</i>		PROJECTION			
	2002	2003	2004	2005	2006	2007
Total Revenues & Resources	\$10,533	\$11,300	\$11,161	\$11,539	\$12,106	\$12,698
Total Expenditures	\$11,226	\$11,222	\$11,755	\$12,272	\$12,805	\$13,338
DIFFERENCE	(\$693)	\$78	(\$594)	(\$733)	(\$699)	(\$640)
TOTAL RESERVES/DEFICIT*	\$315	\$364	(\$229)	(\$963)	(\$1,661)	(\$2,302)

*Includes statutorily required transfers to other funds.



Scenario 2: Same as Scenario 1 except health care annual cost per case growth is 12%.

	<i>In Millions</i>		PROJECTION			
	2002	2003	2004	2005	2006	2007
Total Revenues & Resources	\$10,533	\$11,300	\$11,161	\$11,539	\$12,106	\$12,698
Total Expenditures	\$11,226	\$11,222	\$11,973	\$12,736	\$13,552	\$14,413
DIFFERENCE	(\$693)	\$78	(\$812)	(\$1,197)	(\$1,446)	(\$1,715)
TOTAL RESERVES/DEFICIT*	\$315	\$364	(\$447)	(\$1,645)	(\$3,090)	(\$4,805)

*Includes statutorily required transfers to other funds.

